

The Washington Merry-Go-Round

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McCone Withheld Some Facts

While Drew Pearson is in the Midwest, his column is written by his associate, Jack Anderson.

By Jack Anderson

The Maritime Administration's confidential records reveal that John McCone, the new Central Intelligence chief, did not correctly inform Senators last week about an alleged conflict of interest while he was Atomic Energy chairman.



Anderson

We hope that McCone's period as CIA director will be productive and efficient. But one of the purposes of Senate confirmation debate is to alert the public regarding the past record of the office-holder, and put him on notice regarding the future. This was one objective in cross-examination given McCone by some of the more alert and conscientious members of the Senate Armed Services Committee.

They questioned McCone about the arbitrary award of the atomic-ship contract to States Marine, which was associated with McCone in several joint shipping ventures.

A selection board, using a careful point system to determine the best qualified company, rated States Marine sixth out of seven applicants. Yet the Eisenhower Adminis-

tration overruled the board and gave McCone's shipping partner the contract anyhow.

Claiming no part in the contract negotiations, McCone testified last week: "This contract was negotiated during the spring of 1958. It was awarded on the 6th of June of 1958. I took office the 9th or 10th of July, some six weeks later."

Maritime records disclose, however, that the contract wasn't awarded until July 25, 1958. Even more significant, it was held up by the Atomic Energy Commission, which wanted the language revised.

All this happened while McCone was chairman. His legal officer, who drafted the changes that the AEC wanted in the States Marine contract, was James Wolf.

Reached in Pittsburgh, where he is now practicing law, Wolf confirmed to this column that the AEC had delayed and revised the contract. Maritime officials, who helped with the revisions, also recall that the question of McCone's conflict came up informally.

This makes clear (1) that the AEC participated in preparing the States Marine contract, and (2) that the final drafting occurred after McCone became chairman.

Yet at his Senate hearing last week, he claimed that the contract negotiations not only were handled strictly by the Maritime Administration but

were completed before he was sworn into the AEC.

Short Memory

Maine's demure Sen. Margaret Chase Smith brought out that McCone, though aware of the States Marine conflict, neglected to mention it during his 1958 confirmation hearings.

"Why didn't you mention the States Marine lines in your answer?" she asked sweetly.

"I cannot recall," shrugged McCone, "except that there was no contract between States Marine and the Atomic Energy Commission."

Again, he was less than frank about the AEC's part in preparing the final contract.

South Dakota's GOP Sen. Francis Case, author of the Renegotiation act which has saved the Government more than \$12 billion in excess war profits, also tried to pin McCone down on his World War II profits.

Fat War Profits

"Apparently," declared Case, "it became possible for a group with which you are associated, with a basic investment of \$100,000, to make profits of over \$44 million in the space of a couple of years or less. Is that a fair statement?"

"No," objected McCone. "I do not think it is, Senator."

He launched into an in-

volved financial discussion which Case disputed by reading the past record.

Sen. Glenn Beall, Maryland Republican, brought out that McCone, as Under Secretary of the Air Force, had participated in awarding a juicy airplane contract to Henry Kaiser, a former business associate. Kaiser-Frazer, promptly ran up the cost of producing the C-119 flying boxcar nearly five times the previous price.

"Wasn't it a fact that Fairchild was building the C-119 for \$260,000?" demanded Beall.

"Just about," McCone admitted.

"And Kaiser-Frazer charged \$1,200,000?" Beal pressed.

"Information of that nature came out in the June, 1953, hearing," McCone acknowledged.

"Why," asked Sen. Howard Cannon, Nevada Democrat, "was the contract taken from Fairchild and awarded to Kaiser?"

"What happened was that we were going through a vast expansion of our aircraft production program," explained McCone. "The problem we faced was whether to open up a second plant under Fairchild management or to take a second source such as Kaiser-Frazer. The recommendation of the Air Materiel Command, which I approved, was to select Kaiser-Frazer."

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McCone Made Big WW III Profits

By Drew Pearson

With eight high officials fired from the Eisenhower Administration for conflicts of interest, it would seem mandatory that both Democrats and Republicans take a very close look at the conflict-of-interest issue before appointing and confirming new men.

John A. McCone, picked Pearson to replace Allen Dulles as head of the vitally important Central Intelligence Agency, has a record which is interesting on three counts:

1. He has made more money out of Uncle Sam on war contracts than perhaps any other man now working for the Government.
2. He has had a continuing close financial connection with the Henry J. Kaiser interests to which, as Under Secretary for Air, he gave a very interesting quickie contract for making Flying Boxcars (C-119) in the record time of 10 days, at a price three times greater than that of Kaiser's competitor, Fairchild.
3. He is shrewd and able, which accounts not only for his capacity for making money but for his agility in keeping high Government positions under both Republicans and Democrats.

When McCone came up for

confirmation as chairman of the Atomic Energy Commission on July 3, 1958, he let slip one interesting fact which puts him in a position of having a possible conflict of interest. Answering a question from Sen. Clinton Anderson (D.-N.M.), he said:

"Yes, I have some business relationships with Kaiser, inasmuch as a jointly owned company, 25 per cent of which is owned by Hendy (Joshua Hendy Corp. of which McCone owns all the stock) and 50 per cent is owned by Kaiser Aluminum, has a long-range contract to transport Kaiser's bauxite from Jamaica to Baton Rouge."

Yet when McCone was being investigated by the late Sen. Styles Bridges (R.-N. H.) and the Senate Armed Services subcommittee regarding his quickie C-119 contract to Kaiser, he claimed: "I have had no business relationship with Kaiser for years. . . . I have no benefit to gain from the affairs of his companies. The statement therefore that I was a link in Henry Kaiser's 'chain of influence' should be corrected."

Nonetheless, Senator Bridges showed that McCone went to amazing lengths to switch part of a C-119 Flying Boxcar contract away from Fairchild in Hagerstown, Md., to Kaiser at Willow Run, Mich., at a cost figure which turned out to be \$1,339,140 per plane as against Fairchild's \$260,000.

A third congressional hearing, Sept. 25, 1946, shows the

close financial kinship between McCone and Kaiser and why it was possible for Kaiser to barge in on McCone, have luncheon with him, and walk out with a multimillion-dollar contract as good as signed.

This third hearing probed the phenomenal war profits rolled up by both McCone and Kaiser when they were shipbuilding partners during the war, and when they parlayed an investment of \$100,000 into a profit of \$44,423,000.

McCone was then president of the California Shipbuilding Co., organized about one year before Pearl Harbor, when Todd Shipbuilding put up \$50,000, with another \$50,000 coming from the Betchel-McCone-Parsons Company, Henry Kaiser, and other companies associated with Kaiser and Betchel-McCone in building Boulder Dam.

Phenomenal War Profits

This combine made a killing. Uncle Sam needed ships, was willing to pay any price for them, and the Todd-McCone-Kaiser combine went to town, though later Todd got out and left the West Coast field to Kaiser and McCone.

According to the sworn statement of Ralph E. Casey of the General Accounting Office before the House Merchant Marine Committee in 1946:

"It would seem when profits from Government contracts paid from public funds soar to such astronomical heights in proportion to invested capi-

tal, someone should come forward with a satisfactory explanation."

He went on to testify: "The California Shipbuilding Corp. was incorporated Jan. 6, 1941, and the entire cash investment represented by 1000 shares of capital stock at a par value of \$100, consisted of \$50,000 invested by the Todd shipyards and \$50,000 invested by 10 companies affiliated with Henry J. Kaiser.

"About a year later, on Feb. 19, 1942, a meeting was called for the purpose of declaring dividends out of the surplus. The minutes of the meeting said:

"After a full discussion upon motion duly made . . . it was unanimously resolved that a dividend of \$1000 per share be, and the same hereby is, declared."

This, concluded GAO executive Casey, was a profit of \$1,000,000 on the investment of \$100,000 within one year—all at the expense of Uncle Sam's shipbuilding business.

The profitable partnership between Kaiser and McCone continued until it rolled up a war profit of \$44,423,000 and, according to McCone's own testimony, the association is continuing in the form of a joint shipping line today. In between McCone, as Under Secretary of the Air Force, helped swing one of the juiciest airplane contracts in history to Henry Kaiser.

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